

# High income earners get almost the entire benefit of stage 3 of the governments tax plan

***High income earners will get 95% of the benefit from stage 3 and 75% of taxpayers will get no benefit.***

***By Matt Grudnoff, June 2018***

The senate has rejected stage three of the government's income tax plan on the 20<sup>th</sup> June at 12.13pm. Stage three is not due to come into effect until July 2024. That is six years from now and probably two federal elections. Stage three gives the most benefit to high income earners. It removes the 37 per cent tax bracket and as a consequence flattens the Australia's income tax system and reduces its progressive nature.

It lifts the top tax threshold from \$180,000 to \$200,000 and lifts the 32.5 per cent tax threshold from \$120,000 to \$200,000 and therefore removes the 37 per cent tax bracket. The removal of this bracket means people earning \$200,000 face a marginal tax rate that is the same as someone on \$41,000.

Previous Australia Institute modelling shows that if all three stages of the tax package were implemented, the benefits would go overwhelmingly to high income earners – with 62 per cent going to the top 20 per cent of tax payers.<sup>1</sup> Further Australia Institute modelling showed that the distributional benefit to high income earners was higher from increasing the 32.5 cent threshold from \$90,000 to \$200,000 and the removal of the 37 cent bracket. This represents part of stage two and all of stage three of the government's tax plan. The top 20 per cent of tax payers will get 80 per cent of the benefit.<sup>2</sup>

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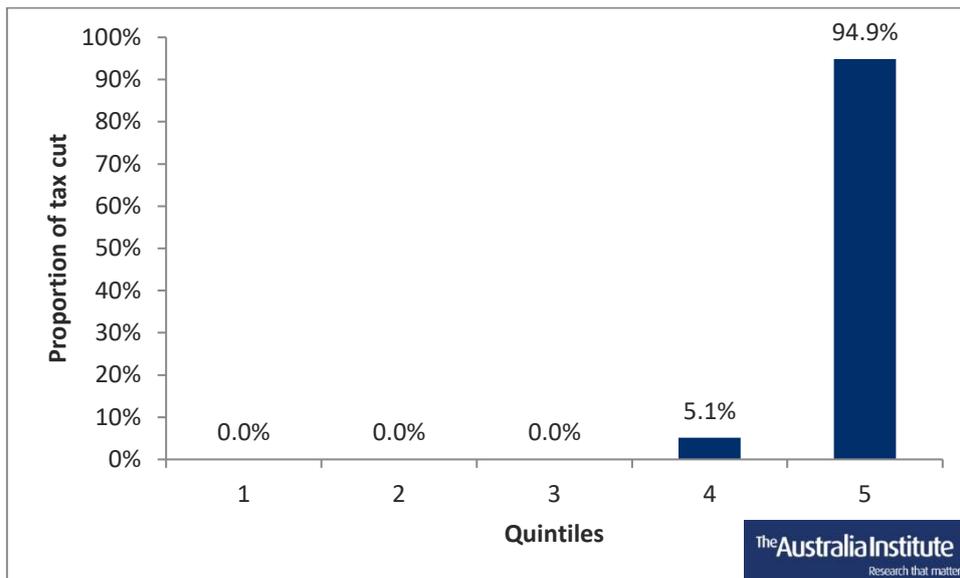
<sup>1</sup> Grudnoff M (2018) *Radical plan to increase inequality in Australia revealed in the budget*, The Australia Institute, 10 May, available at <<http://www.tai.org.au/content/62-tax-cuts-benefits-go-highest-income-earners>>

<sup>2</sup> Grudnoff M (2018) *High income earners the big winners from scrapping 37% tax bracket*, The Australia Institute, 29 May, available at <<http://www.tai.org.au/content/high-income-earners-big-winners-scrapping-37-tax-bracket>>

Stage one and stage two look like having support in the senate but it appears that stage three will not pass. This briefing note will look at the distributional impacts of just stage three of the proposed income tax plan.

Stage three will cost the budget \$6.25 billion in 2024-25 and \$42 billion over the next five years. The benefit of stage three go almost exclusively to high income earners, with 95 per cent going to the top 20 per cent of tax payers. The results are shown in Figure 1

**Figure 1: Benefit of stage three by quintile in 2024-25**



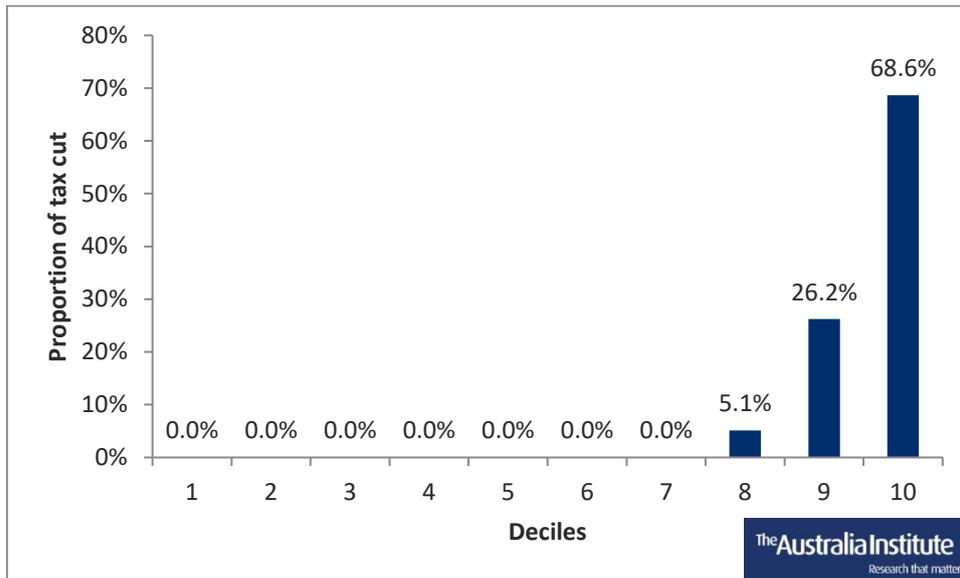
Source: ATO (2018) *Taxation Statistics 2015-16* and Australia Institute calculations

Quintiles split taxpayers into five equal groups based on their incomes. The bottom 20 per cent of taxpayers are in the first quintile, the next 20 per cent are in the second quintile, and so on until you have the highest 20 per cent of income earners in the fifth quintile.

As Figure 1 shows, the top quintile of taxpayers (the top 20 per cent) gets 95 per cent of the benefit from stage three of the government's tax plan. The next 20 per cent of taxpayers receive the rest of the benefit. In reality it is only the very top of the next quintile that get any benefit. Three quarters of all taxpayers get no benefit from stage three.

If we split taxpayers into smaller groups, we can look at the benefit of stage three by decile. Deciles are like quintiles, but break taxpayers into 10 equal groups rather than five. The benefit of stage three by decile is shown in Figure 2. It shows that just 10 per cent of taxpayers almost 70 per cent of the benefit.

**Figure 2: Benefit of removing 37 per cent tax bracket by decile in 2024-25**



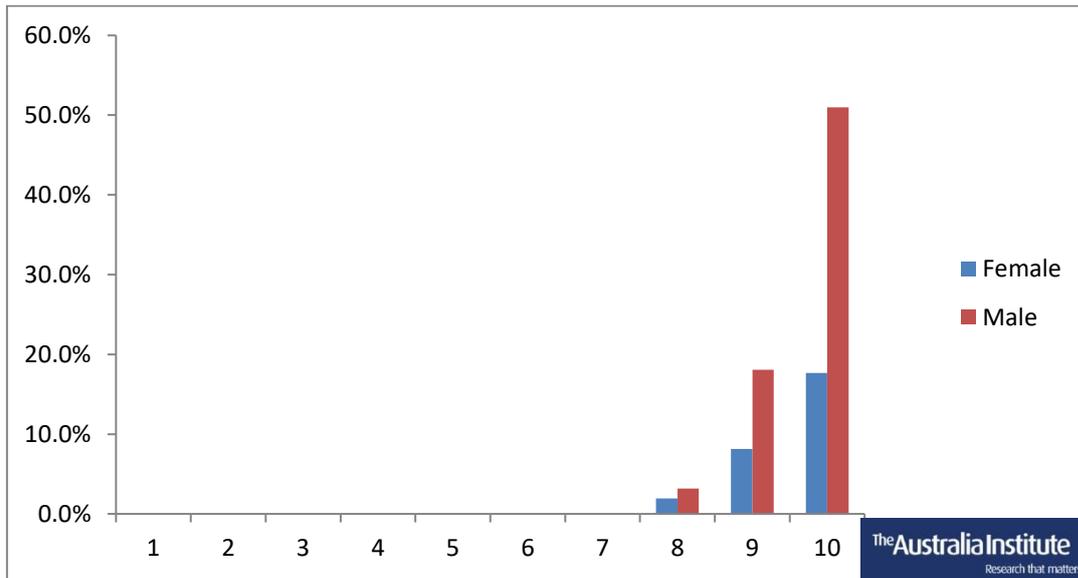
Source: ATO (2018) *Taxation Statistics 2015-16* and Australia Institute calculations

## Gender distribution of stage three

Men are overrepresented among high income earners. Because high income earners receive the greatest share of the benefits, most of the tax cut will go to men. Men will receive 72 per cent of the benefit of the tax cut and women only 28 per cent. For every dollar of the tax cut women receive, men will get \$2.60.

For the year 2024-25, men will receive a tax cut of \$4.5 billion, while women will receive \$1.7 billion. High income earning men in the top 10 per cent of taxpayer alone will get over half of the benefit of stage three. The effect of stage 3 by gender and by decile is shown in Figure 3.

**Figure 3: Benefit of stage 3 by gender by decile in 2024-25**



Source: ATO (2018) *Taxation Statistics 2015-16* and Australia Institute calculations

## Method

We have calculated the benefit of the tax cut by income and by gender using the latest taxation statistics. Using the taxation statistics, we have constructed a model of Australia's income tax system. We then broke down all taxpayers into 100 groups from the lowest income earners to the highest and identified the proportion of females and males in each group. By inflating income by nominal GDP and population growth we calculated how much each group pays as the income tax cut is introduced. We then calculated how much went to each income decile and quintile and how much of the tax cut went to women and men.

## Conclusion

The Senate has chosen to remove that part of the tax cut that goes to the very top end of taxpayers. This represents over \$6 billion per year going to just 25 per cent of taxpayers. The government has provided no compelling argument for giving such largess to so few taxpayers.

The government's tax plan will flatten income tax and make it less progressive and no part of the plan will reduce the progressive nature of the income tax system than stage three. The progressive nature of Australia's income tax has been an important feature for decades. Flattening income tax reduces the tax take from high income earners,

which ultimately means either worse government services or higher taxes on middle and low income earners.

Stage three will also benefit men far more than women and will widen the post-tax gender income divide. If government policy has any chance of reducing gender inequality it needs to focus attention on the impact its policy changes are having on gender incomes.

The Senate was right to reject the most unequal part of the income tax plan. It should continue to protect Australia's progressive income tax system and resist government attempts to pass stage three of the government's income tax plan.

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